

SECRET



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Margaret Thatcher MP  
10 Downing Street  
LONDON SW1

3<sup>rd</sup> August 1985

Dear Prime Minister,

MISC 109: EDINBURGH

In the Chief Secretary's absence I have seen a copy of George Younger's minute to you of 31 July on the subject of Edinburgh District Council.

I do not think that the granting of exceptional borrowing powers would be an adequate response to the consequences of gross financial mis-management should Edinburgh choose that course. To do so would be to signal to other authorities that irresponsibility will not be allowed to hurt and that rate limits can be avoided by explicit deficit budgeting. Therefore it seems to me to be sensible to prepare draft commissioner legislation for Scotland - though I have no strong views on whether this should stand alone or be part of a UK bill.

George also seeks approval for discretion to negotiate a marginal softening of the 5.2p rate reduction proposed for Edinburgh provided they co-operate. Edinburgh's budget for this year was so extreme, 40 per cent on last year's outturn and nearly 50 per cent over guideline, that I would be most reluctant to see any softening of our line. And I am particularly concerned that anything which could be represented as a significant concession would lead to similar expectations from English rate-capped authorities or from Liverpool.

Copies of this letter go to George Younger, other members of MISC 109, Sir Robert Armstrong and Kenny Cameron.

Yours ever

Ian

IAN STEWART

